

Views from the Desk

Updates in the Equity and Fixed Income Market

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The Canadian Election

Liberals called this current election with the hopes of securing a majority government in order to fully push through their agenda. Since the election was called, the polls have showed the likelihood of a majority is slim. It is looking as though there will be a minority government regardless if it is a Conservative or Liberal party voted in.

All three major parties (Liberals, Conservatives and NDP) have indicated there will be a significant amount of spending in their platforms. Therefore, fiscal support will be given no matter who gets elected which is great for economic stimulus. The Conservative platform indicated in their platform that they will spend less than the Liberals and NDP and expect to balance the budget in 10 years time. The Liberals have a proposed tax on financial institutions (“recovery dividend”) which could create pressure on Financials however, it is not looking like it will affect the investors viewpoint on investing in the sector.

One of the major differences between the Liberals and Conservatives is carbon tax. Liberals are suggesting that carbon tax go up to \$170.00/tonne by 2030, and the conservatives are only wanting \$50.00/tonne. Alternative energy will be supported by all parties and [ZCLN - BMO Clean Energy Index ETF](#) will be of benefit to the energy sleeve of your portfolio. [ZEO - BMO Equal Weight Oil & Gas Index ETF](#) would be the ETF to look at if conservatives have their platform pushed through.

Potential Tax Increase on US Corporations

On Monday a tax proposal was unveiled in the US, and it was less aggressive than a lot of progressives were looking for. The proposal included a 3% surcharge on the ultra rich (making 5 Million dollars or more). The Democrats want to restore the top individual tax bracket back to 39.6% (which the Republicans cut to 37%) and bring the corporate tax rate to as high as 26.5%. It still remains unclear of the overall revenue generated from all these tax hikes. It is estimated that if corporate tax hikes end up being 25% vs the 26.5% they are proposing, and if they get half of their proposed increase on foreign income tax, the expectation is that it is going to have a small impact on the market and potentially reduce the S&P 500 earnings by about 5% in 2022.

It seems inevitable that we are going to see higher taxes in the US, and we believe it is important to revisit how you are investing in the US right now. [ZUQ - BMO MSCI USA High Quality Index ETF](#) is a great way to position yourself since you’re invested in companies with high return on equity, low financial leverage and stable earnings growth.

Volatility in the Markets

The S&P has been selling off a little bit this month. In the last decade, typically the month of September is less volatile if you’re looking at the seasonality of volatility. We believe that investors have been repositioning their portfolios since we have been consistently reaching all time highs. A lot of investors have had a very successful year and are looking at how to de-risk their portfolios.

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We believe the [Low Volatility Factor](#) (specifically [ZLB - BMO Low Volatility Canadian Equity ETF](#)) and the [Quality Factor](#) (specifically [ZUQ - BMO MSCI USA High Quality Index ETF](#)) are great ways to navigate volatility and stay invested in the market. Furthermore, we may want to start considering utilizing [Covered Calls](#) such as [ZPAY - BMO Premium Yield ETF](#).

Inflation

The CPI year over year number has come in well above the long term 2% Fed Reserve target at 5.3%. The market yesterday was focused on the month over month CPI number which came in under the market expectation of 0.4% at 0.3%. CPI has started to trend lower suggesting that inflation is transitory in nature and is caused by a lot of the COVID restrictions and supply chain disruptions. However, it is too hard to tell whether that is true considering the industry (in terms of goods and services) exhibits a lot of price pickiness. Additionally, Canada's CPI number came in a little higher than the expectation of 3.9% at 4.1%. Overall, we think that it will be US inflation specifically that will be driving the market as it is what will be impacting the Fed's tapering policy.

For fixed income you may want to consider offsetting duration risk with [ZTIP - BMO Short-Term US TIPS Index ETF](#) and [ZRR - BMO Real Return Bond Index ETF](#). For equities, the quality factor screens companies with low financial leverage and will naturally invest in companies that have strong balance sheets, that are profitable, less volatile and should do well no matter what the economic backdrop.

*To learn more about BMO ETFs, please contact your [ETF Specialist](#).

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Source: Bloomberg, All returns and data points July, 2021.

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